

British American Tobacco (ROTH MK)

2025: Above Expectations, Fires Are Lit Again

Highlights

- BAT's 2025 results beat expectations on rebounding sales volume following the soft 3Q25.
- Margins expanded across the board as savings from the cessation of vapour sales kicked in.
- While volumes may normalise in the coming quarter, we believe the group is largely stable operationally and margins may remain elevated.
- Maintain BUY with a higher target price of RM6.51 as we see value in attractive dividend yields and bargain valuations.

2025 Results

Year to 31 Dec (RMm)	4Q25	Qoq%	Yoy%	2025	yoy%
Revenue	948	215.1	45.2	2,196	-5.2
Gross profit	251	295.4	67.4	526	-2.8
EBIT	164	660.0	113.1	312	11.8
Net profit	121	1626.5	147.5	202	10.5
Core net profit	110	590.2	125.6	210	14.8
Margins	%	+/-ppt	+/-ppt	%	+/-ppt
Gross profit	26.4	5.4	3.5	24.0	0.6
EBIT	17.3	10.1	5.5	14.2	2.2
Effective tax rate	-27.3	-56.2	1.7	-26.2	1.0
Core net profit	11.7	6.3	4.2	9.6	1.7

Source: British American Tobacco, UOB Kay Hian

Analysis

- Above expectations.** British American Tobacco (BAT) reported a core net profit of RM210m (+14.8% yoy). We arrive at this after excluding: a) RM29.6m in inventories written-off, b) RM2.4m loss on derivatives, c) RM22.1m reversal in provisions for market returns, and d) RM2.0m net foreign exchange gains. This handily beat expectations, surpassing our and consensus forecasts by 62% and 67% respectively. The strong outperformance stemmed from higher-than-expected margins and an exceptionally strong rebound in sales volume in 4Q25 following the change in packaging regulations. A 39 sen interim dividend was announced, bringing the total for the year to 63.5 sen (2024:59 sen).

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	2,315	2,196	2,019	1,955	1,916
EBITDA	283	329	295	284	278
Operating profit	279	311	279	267	260
Net profit (rep./act.)	183	202	191	183	177
Net profit (adj.)	183	210	191	183	177
EPS	64.1	73.6	67.1	64.1	62.1
PE (x)	7.1	6.2	6.8	7.1	7.4
P/B (x)	3.4	2.7	2.6	2.5	2.5
EV/EBITDA (x)	62.8	55.4	60.2	62.2	63.6
Dividend yield (%)	12.9	13.9	13.2	12.6	12.3
Net margin (%)	7.9	9.2	9.5	9.4	9.3
Net debt/(cash) to equity(%)	134.7	113.0	90.1	80.4	72.8
Interest cover (x)	10.5	10.9	12.9	12.5	12.2
ROE (%)	48.1	47.7	44.2	41.3	39.3
Consensus net profit			121.3	111.5	96.9
UOBKH/Consensus (x)			1.58	1.64	1.83

Source: British American Tobacco, Bloomberg, UOB Kay Hian

BUY (Maintained)

Share Price	RM4.57
Target Price	RM6.51
Upside	42.2%
Previous TP	RM5.26

Analyst(s)

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Stock Data

GICS Sector	Consumer Staples
Bloomberg ticker	ROTH MK
Shares issued (m)	285.5
Market cap (RMm)	1,330.6
Market cap (US\$m)	337.1
3-mth avg daily t'over (US\$m)	0.3

Price Performance (%)

52-week high/low				RM7.31/RM4.20
1mth	3mth	6mth	1yr	YTD
5.2	1.3	(12.1)	(35.0)	5.2

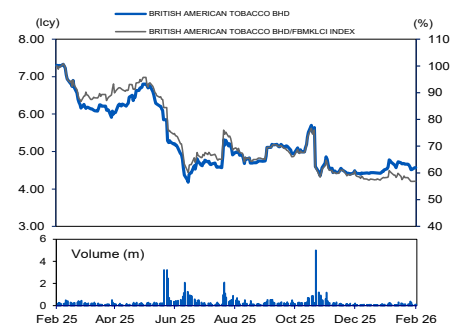
Major Shareholders

	%
British American Tobacco PLC	50.0
Tan Yu Yeh	3.1
Allianz SE	1.4

Balance Sheet Metrics

	%
FY26 NAV/Share (RM)	1.45
FY26 Net Debt/Share (RM)	0.29

Price Chart



Source: Bloomberg

Company Description

BAT manufactures cigarettes and markets its products under its key brands Dunhill, Peter Stuyvesant and Rothmans.

- **Sales volume spiked in 4Q25.** BAT reported a core net profit of RM110m (>6x qoq, >2x yoy) on revenue of RM948m (>2x qoq, +45.2% yoy). The significant jump in sales volume was driven largely by a reversal of inventory correction that took place during 3Q25. We understand that due to a change in packaging regulations that took effect in Oct 24, BAT and retailers were forced to write off older, non-compliant stock. We opine that the sequentially strong sales numbers are largely a result of restocking after the correction as well as some forward buying ahead of the price increase announced following the excise duty hike in Budget 2026. As such, we believe that sales volume may normalise in the coming quarter as retailers clear existing inventory.
- **Broad market volume slowly declining...** Overall, legal combustible market sales volume dropped 1.4% yoy despite a 0.6ppt reduction in illicit incidence to 54.4%. BAT's sales volume also fell 5.5% yoy, reflecting regulatory changes as well as the group's transition out of vapour products.
- **...but margins expanding.** However, despite the decline in sales volume, BAT recorded a 14.8% increase in core net profit on the back of across-the-board margin expansion. Following the group's exit from vape sales, operating costs decreased 16.0% yoy in 2025 as the cessation of investment into growing Vuse resulted in 0.6-2.2ppt margin expansion. Note that this was also offset partially by the implementation of new regulations (ie packaging, retail display ban) and that there could be further upside to margins in 2026.
- **Lush yields attractive at current levels.** Based on the current payout, BAT's dividend yields appear attractive at around 13%. While the overall market may continue to contract, improving operational indices following the end of vape sales signal for stable margins and lush dividend distributions. We see value in BAT given the depressed valuations the group currently trades at.

Valuation/Recommendation

- **Maintain BUY with a higher target price of RM6.51 (previously RM5.26).** Our target price, which is DCF-based (WACC of 10.0%, terminal growth: -3.0%), implies 9.7x 2026F PE, slightly around -0.5SD to its five-year mean. Given the group trades at below -1.5SD to its mean valuation, we believe value has emerged.

Earnings Revision/Risk

- We lift our 2026/27 forecasts by 58%/51% respectively, imputing wider margins and higher sales volumes.

Environmental, Social, Governance (ESG) Updates

Environmental

- **Carbon neutrality.** Achieving carbon neutrality across Scopes 1 and 2 by end-26.
- **General waste.** Reducing waste generated by 15% and recycling at least 95% of the waste generated by end-26.
- **Single-use plastics.** Ensuring that 100% of plastic packaging is reusable, recyclable or compostable by end-26.

Social

- **Diversity and inclusion.** Increasing proportion of women in senior teams to 40% by end-26.

Governance

- **Board gender diversity.** Male to female ratio of 7:3.
- **Board tenure and experience.** Three board members have more than five years' tenure, one board member has 3-5 years' tenure, and three board members have less than three years' tenure.

KEY Assumption

	2025F	2026F	2027F
Volume Growth yoy (%)	-8.6	-4.7	-4.2
ASP Growth yoy (%)	4.2	1.6	2.3
ASP (RM/pack)			
Premium	18.4	18.6	18.8
Aspirational	16.9	17.1	17.4
VFM	12.9	13.2	13.2
Excise Assumption (RM/pack)	8.4	8.4	8.4
Gross Profit (RMm)	482	464	453
GP Margin (%)	23.9	23.7	23.6
PAT (RMm)	191	183	177
Growth yoy (%)	-8.9	-4.4	-3.1
PAT Margin (%)	9.5	9.4	9.3

Source: BAT, UOB Kay Hian

12-Month Forward PE Band



Source: BAT, UOB Kay Hian

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	2,196	2,019	1,955	1,916
EBITDA	329	295	284	278
Deprec. & amort.	18	16	17	18
EBIT	311	279	267	260
Associate contributions	-	-	-	-
Net interest income/(expense)	(29)	(23)	(23)	(23)
Pre-tax profit	274	256	245	237
Tax	(72)	(65)	(62)	(60)
Net profit	202	191	183	177
Net profit (adj.)	210	191	183	177

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Fixed assets	42	43	45	48
Other LT assets	424	425	427	428
Cash/ST investment	33	124	158	184
Other current assets	764	699	678	666
Total assets	1,262	1,293	1,308	1,326
ST debt	570	570	570	570
Other current liabilities	196	207	205	204
LT debt	-	-	-	-
Other LT liabilities	21	21	21	21
Shareholders' equity	475	494	513	530
Minority interest	-	-	-	-
Total liabilities & equity	1,262	1,293	1,308	1,326

Cash Flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	143	304	239	228
Pre-tax profit	274	256	245	237
Tax	(64)	(65)	(62)	(60)
Deprec. & amort.	23	16	17	18
Associates	-	-	-	-
Working capital changes	(119)	96	40	33
Non-cash items	-	-	-	-
Other operating cashflows	28	(0)	(1)	(1)
Investing	(2)	(17)	(18)	(19)
Capex (growth)	(2)	(17)	(18)	(19)
Others	0	-	-	-
Financing	(144)	(195)	(187)	(182)
Dividend payments	(113)	(172)	(165)	(160)
Issue of shares	-	-	-	-
Proceeds from borrowings	-	-	-	-
Others/interest paid	(43)	(23)	(23)	(23)
Net cash inflow (outflow)	(2)	91	33	26
Beginning cash & cash equivalent	35	33	124	158
Changes due to forex impact	-	-	-	-
Ending cash & cash equivalent	33	124	158	184

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	14.6	14.6	14.5	14.5
Pre-tax margin	12.5	12.7	12.5	12.4
Net margin	9.2	9.5	9.4	9.3
ROA	16.8	15.7	14.9	14.4
ROE	47.7	44.2	41.3	39.3
Growth				
Turnover	(5.2)	(8.0)	(3.2)	(2.0)
EBITDA	16.1	(10.5)	(3.5)	(2.3)
Pre-tax profit	9.1	(6.7)	(4.4)	(3.1)
Net profit	14.8	(8.9)	(4.4)	(3.1)
Net profit (adj.)	14.8	(8.9)	(4.4)	(3.1)
EPS	14.8	(8.9)	(4.4)	(3.1)
Leverage				
Debt to total capital	54.5	53.5	52.6	51.8
Debt to equity	119.9	115.3	111.1	107.4
Net debt/(cash) to equity	113.0	90.1	80.4	72.8
Interest cover	10.9	12.9	12.5	12.2

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